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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

In the matter of)	CC Docket No. 96-45
Common Carrier Bureau Seeks)	(Report to Congress)
Comment for Report to Congress)	
on Universal Service Under the)	COMMENTS OF
Telecommunications Act of 1996)	COMMUNITY INTERNET SYSTEMS, INC.

This is in response to the request for comments on the Commission's Report to Congress on Universal Service Under the Telecommunications Act of 1996.

Our company is an ISP that serves 2,000 homes and businesses all across Nebraska. We also serve as the Internet Administrator for the Nebraska Cooperative Government which is an interlocal organization consisting of over 70 Nebraska Cities, Counties, and Villages with a population of over 100,000. Our pioneering communications were recognized in 1995 as the outstanding public telecommunications success story for Nebraska at the Docking Institute's Tri-State (Colorado, Kansas, & Nebraska) Governors' Conference.

We were one of the first entities to provide Internet Service to rural Nebraska. As part of our operations, we provide free Internet service to the libraries in the communities and to several schools along with free business homepages to many Nebraska businesses. We also serve a number of rural hospitals with Internet Service. Virtually every cent we generate goes back to the phone companies and telecommunications equipment providers.

It is with concern that we view the Universal Service Fund mechanism as it applies Nebraska's unique situation. It appears that massive subsidies to existing phone companies may be counter productive because they will further entrench the incumbent provider and deny our markets access to innovative forces. The service provided to rural areas by incumbent providers is inadequate when compared to metropolitan areas. When it comes to new innovations, our communities are understandably not a high priority for the large phone and cable companies. The incumbents' priorities are naturally with the denser population areas in other states they serve. Their approach is simply to tell our communities that we have the best there is and that we don't need anything any better. If they can convince rural Nebraska of that then necessary upgrades can be placed on back burner until the benefits of the information age can trickle down to us at a time when Corporate America is ready to allocate to Rural Nebraska its capital

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and resources. Meanwhile, rural areas are further handicapped as they watch the gap widen between those that have access and those that do not. The Universal Service Fund concept is supposed to encourage a quicker trickle down, but, at least in Nebraska, there is a better way without directly or indirectly imposing an increased consumer tax to subsidize the incumbent communications companies and perpetuate their strangle hold on local resources.

There are two massive resources here which could provide state of the art digital communication (cable, phone, and Internet) access far quicker than any subsidies. These resources have effectively been taken out of play by the existing situation.

The first is the Public and Municipal Power Companies. Those companies are owned by the public in Nebraska and have a history of supplying reliable electricity to every Nebraskan (*even the loneliest farmstead in the sand hills*) at costs below the national average. They have tremendous resources which can be used to accelerate communications development in our rural communities. Nebraska Public Power District, for example, has constructed for its internal purposes a large fiber ring that circles the state. That ring has substantial excess capacity. Those power companies and their constituents have shown great interest in getting into the phone and cable business but the incumbent providers consistently have blocked legislative attempts to enable their market entry. An example of the lengths to which the incumbent providers will go and their influence with the state regulators comes in a recent case before the public service commission where the power company resources were deployed on a test basis to deliver limited telecommunications service to a college and a city government. The cost of delivery was a small fraction of the cost of using traditional telecom facilities but the phone companies took action before the public service commission arguing that although the power district was not prohibited from doing what it did, the enabling legislation for power companies did not authorize the market entry. They further argued that the 1996 Telecommunications Act did not preempt this position in so far as public power companies were concerned. They finally argued that although the city and college involved would pay substantially higher rates if the phone companies provided the service, some of the increase would be offset by federal subsidies to education. The local Commission agreed and ordered the service stopped.

The second resource is a tremendous amount of local private capital available to be invested in local digital communications. That capital could easily be mobilized to be deployed in hybrid fiber coax or fiber to the door in our markets were it not for the market being dominated by existing providers who do not want to make such investments and who are prepared to do whatever it takes to deter competitive investment by making an example of any new entrants. (*See the behavior of the incumbent cable provider in Harlan, Iowa, in response to local investment there.*) Local capital was available to partner with Time Warner in Columbus, Nebraska and provide a 750mhz cable system, but Time

Warner refused choosing to saddle the community with a 550mhz system and threatening to undercut any new entrant seeking to provide the 750mhz system. This behavior follows the pattern of the large providers in preserving these markets as cash cows for old infrastructure and hand-me-down technologies, while at the same time reserving a rural market monopoly. The incumbent providers obtained their market power not through the virtues of competition but by a publicly granted grace of sanctioned monopoly. Having gain dominance by virtue of public grant in both the cable and phone markets, they have tremendous advantage in the battle for market share in rural areas and are in an excellent position to deter innovative investment and competition. It seems doubly unfair that the same industry giants now turn around and put their hand out for Universal Fund subsidies and argue that rural telecommunications will never be developed unless Uncle Sam gives them a generous helping of free money at the consumers expense and at the expense of fledgling competition.

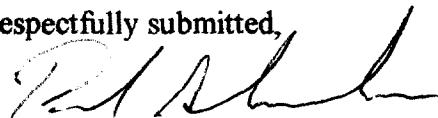
The situation we are faced with is that the existing phone and cable companies do not want to invest their money in our rural communities now, but do not want us to use our existing resources or invest our own money either. They want to have their cake and eat it too. The Universal Service Fund appears to be a mechanism that would enable them to do just that. Invest our money in their business for their continued profit and monopoly.

Better than forcing potential competitors and the consuming public to subsidize the existing phone and cable companies and assuring an undisputed market dominance for the incumbent at public expense, public policy should create incentives for partnership in both investment and profit between the incumbent and local private investors and local power companies in rural areas such as ours. There is much room for such cooperation and our efforts have proven that cooperation can work, but the incentives for cooperation between the distant boards of the incumbent giants and the local resources must be put in place. If there must be a universal service fund, perhaps to access it the incumbent must partner with local investors and/or public resources. Thus, the fund could be leveraged with the local capital and control removed from the distant board room and put in the more local partnership entity. A fair share of the long term profits could stay in the communities that generate them.

Making operations such as ours contribute revenue that we don't have to the Universal Service concept will force us to raise rates or will force us out of the business. It will force us to compete with those we are forced to subsidize. It will remove what inspiration we and those like us have been to our communities schools, hospitals, and libraries to become part of the information age. It will condemn our communities to begging distant corporate boards to please give us

something. It would be better if we were empowered to use our public and private resources to simply do it for ourselves.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Paul Schumacher", written over a horizontal line.

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